

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 9717

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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DEPT PASS TREASURY

EO 11652 NA

TAGS EFIN BR

SUBJECT: BRAZIL NEGOTIATING \$500 MILLION EURO-DOLLAR LOAN

1. A SOURCE IN THE MINISTRY OF FINANCE HAS TOLD US THAT
BRAZIL IS CURRENTLY NEGOTIATING A \$500 MILLION
EURO-DOLLAR LOAN WITH A GROUP OF FOREIGN BANKS HEADED BY
MORGAN GRENFELL OF LONDON. A REPRESENTATIVE OF AN
AMERICAN BANK IN RIO HAS CONFIRMED THE REPORT,
INDICATING THAT NEGOTIATIONS ARE CLOSE TO COMPLETION.

2. THE LOAN IS TO BE MADE TO ACOMINAS, A NEW STEEL
COMPANY BEING SET UP IN THE STATE OF MINAS GERAIS
WHOSE MAJORITY OWNERSHIP IS IN THE HANDS OF THE
PUBLICLY-HELD STEEL HOLDING COMPANY (SIDERBRAS) AND
THE STATE OF MINAS GERAIS. THE LOAN WILL BE
GUARANTEED BY THE FEDERAL GOVERNMENT. THE PROCEEDS ARE
TO BE USED FOR THE PURCHASE OF LOCAL EQUIPMENT
AND FOR WORKING CAPITAL (I.E., IT IS NOT TIED TO FOREIGN
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PROCUREMENT). ACOMINAS EXPECTS TO OBTAIN AN ADDITIONAL \$500
MILLION IN SUPPLIER'S CREDITS FROM THE BRITISH. ACCORDING TO OUR
FINANCE MINISTRY SOURCE, THE FINANCING PACKAGE FOR THE STEEL
COMPANY WAS AGREED TO DURING PRESIDENT GEISEL'S
VISIT TO THE U.K. LAST YEAR.

COMMENT.

3. IF THE NEGOTIATIONS FOR THIS \$500 MILLION LOAN ARE SUCCESSFUL, IT WOULD REPRESENT THE LARGEST SINGLE EURO-DOLLAR BORROWING BY BRAZIL TO DATE. THE FACT THAT BRAZIL IS ATTEMPTING TO GO TO THE MARKET WITH SUCH A SIZEABLE LOAN INDICATES THAT IT IS MAINTAINING ITS AGGRESSIVE FOREIGN BORROWING POLICY, WHICH WAS MANIFESTED MOST STRIKINGLY DURING THE SECOND HALF OF 1976 WHEN SUCH BORROWING MADE POSSIBLE A \$3.0 BILLION INCREASE IN OFFICIAL RESERVES. THE AUTHORITIES HAVE APPARENTLY DECIDED TO TAKE ALL THEY CAN FROM THE MONEY MARKETS WHILE THE LIQUIDITY SITUATION IS FAVORABLE. THEY, THEREFORE, ARE EXPECTED TO BORROW HEAVILY DURING THE FIRST HALF IN ANTICIPATION OF SOME TIGHTENING UP OF THE MARKET IN THE DECOND HALF AS A RESULT OF A POSSIBLE PICK-UP IN ECONOMIC ACTIVITY IN THE INDUSTRIALIZED COUNTRIES. DESPITE THE SIZE OF ITS FOREIGN DEBT, IT APPEARS THAT, IN THE EYES OF FOREIGN BANKS, BRAZIL'S CREDITWORTHINESS REMAINS STRONG.

4. SOME OF THE LARGER LOANS CONTRACTED BY BRAZIL DURING THE LATTER PART OF 1976 WERE: REDE FERROVIARIA (RAILWAYS) \$150 MILLION, SIDERBRAS \$150 MILLION, TELESP (SAO PAULO'S TELECOMMUNICATION) \$100 MILLION, CAIXA ECONOMICA FEDERAL (NATIONAL SAVINGS BANK) \$150 MILLION, ACOMINAS (80 MILLION AND COSIPA (STEEL COMPANY) \$50 MILLION.
CRIMMINS

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Message Attributes

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Sent Date: 21-Jan-1977 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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Disposition Reason:
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